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8 UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
9 AT SEATTLE

10 EON-NET, L.P.,

11 Plaintiff,

12 v.

13 FLAGSTAR BANCORP, INC.,

14 Defendant.

CASE NO. C05-2129RSM

ORDER ON MOTION FOR FEES AND
COSTS

15
16 This matter is before the Court for consideration of defendant Flagstar Bancorp, Inc.'s
17 ("Flagstar") motion for attorney's fees, filed pursuant to 35 U.S.C. § 285. Dkt. # 172. This statute
18 provides for an award of attorney fees to the prevailing party in a patent case in "exceptional
19 circumstances." Plaintiff has opposed the motion. The Court deems oral argument unnecessary and, for
20 the reasons set forth below, shall grant the motion.
21

22 BACKGROUND

23 The facts of this matter are well-known to the parties and will be recited only as necessary to the
24 resolution of the present motion. Plaintiff Eon-Net, L.P., ("Eon-Net") is one of three patent-holding
25 companies formed to enforce various continuation or divisional patents arising from an original filing in
26 1991 by inventors Mitchell Medina, Robert Lech, and Catherine Elias. The patents are all titled
27 "Information Processing Methodology" and all share the same specification. The first patent, Patent No.
28

1 5,258,855 (“ ‘855 patent”) and four subsequent patents were assigned to Millennium L.P.
2 (“Millennium”), a limited partnership organized under the laws of the Cayman Islands. Three
3 subsequent continuation patents, the three at issue in this action, were assigned to another Cayman
4 Island limited partnership, Eon-Net.¹ It appears that a third company, Glory Licensing LLC, a limited
5 liability company formed under the laws of the Island of Nevis, has been formed to enforce two
6 recently-issued continuation or divisional patents, Patent No. 7,570,383, issued August 4, 2009, and
7 Patent No. 7,619,768, issued November 17, 2009. *See, e.g., Glory Licensing LLC v. Toys “R” Us, Inc.*,
8 Cause No. 2:09-CV-4252 (S.D.N.Y.)²

9 According to the electronic dockets of the United States District Courts for the Southern District
10 of New York and the District of New Jersey, Millennium has filed at least forty-one cases in New York
11 against various companies, alleging infringement of one or more of the patents assigned to it.³ Another

13 ¹ More recently-filed documents describe Eon-Net as organized under the laws of the British
Virgin Islands, with its principal place of business at Tortola, British Virgin islands. Dkt. # 108.

14 ² Electronic dockets of cases filed in district courts around the United States are available to this
15 Court, as well as to the public, through PACER (Public Access to Court Electronic Records).

16 ³1:96-cv-08251-MBM *Millennium, L.P. v. Compaq Computer Corp.*; 1:99-cv-01577-JSM
17 *Millennium, L.P. v. Cardiff Software*; 1:00-cv-5908-RCC *Millennium, L.P. v. Captive Software*; 1:01-
18 *cv-03734-JGK Millennium, L.P. v. Readsoft AB, et al.*; 1:02-cv-10102-LTS-AJP *Millennium, L.P. v.*
19 *Top Image Systems, et al.*; 1:03-cv-01838-RWS *Millennium, L.P. v. Dakota Imaging, Inc.*;
20 1:03-cv-01839-SHS *Millennium, L.P. v. Recognition Research*; 1:03-cv-01840-JES *Millennium, L.P. v.*
21 *Datacap Inc.*; 1:03-cv-03899-GBD *Millennium, L.P. v. Anydoc Software*; 1:03-cv-03900-DC
22 *Millennium, L.P. v. Hyland Software*; 1:03-cv-07311-NRB *Millennium, L.P. v. Filenet Corporation*;
23 1:03-cv-08563-HB *Millennium, L.P. v. Ceresoft, Inc.*; 1:03-cv-08564-DAB *Millennium, L.P. v.*
24 *Laserfiche Document*; 1:03-cv-08565-RMB *Millennium, L.P. v. Optika Inc.*; 1:04-cv-02860-HB
25 *Millennium, L.P. v. Impression Technology, Inc.*; 1:04-cv-02861-WHP *Millennium, L.P. v. SER*
26 *Solutions, Inc.*; 1:04-cv-03116-RJH *Millennium, L.P. v. Scansoft, Inc.*; 1:04-cv-03117-RJH
27 *Millennium, L.P. v. Docubase Systems*; 1:04-cv-03142-DAB *Millennium, L.P. v. ISYS Papyrus*
28 *America, Inc.*; 1:04-cv-06062-GEL *Millennium, L.P. v. Newgen Software Inc.*; 1:04-cv-06104-DC
Millennium, L.P. v. Scan-Optics, Inc.; 1:05-cv-02282-JGK *Millennium, L.P. v. R2K, Inc.*;
1:05-cv-03094-HB *Millennium, L.P. v. I.R.I.S., Inc.*; 1:05-cv-03330-SAS *Millennium L.P. v. Oyster*
Software, Inc.; 1:05-cv-04891-KMW *Millennium, L.P. v. Verity, Inc.*; 1:05-cv-05040-DC *Millennium,*
L.P. v. Optical Image Technology, Inc.; 1:05-cv-05436-GEL *Millennium, L.P. v. Comcom Systems,*
Inc.; 1:05-cv-05881-RPP *Millennium, L.P. v. Cedartech, Inc.*; 1:05-cv-08339-NRB *Millennium L.P. v.*
Mindwrap, Inc.; 1:05-cv-09942-GBD *Millennium, L.P. v. Documentum, Inc.*; 1:06-cv-00522-GEL
Millennium, L.P. v. Hewlett-Packard Company; 1:06-cv-00964-LMM *Millennium, L.P. v. Captaris,*
Inc.; 1:07-cv-04061-RWS *Millennium, L.P. v. Columbiasoft Corporation*; 1:07-cv-04800-BSJ-FM
Millennium, L.P. v. Vignette Corporation; 1:07-cv-08183-LTS *Millennium, L.P. v. Document Imaging*
Solutions, Inc.; 1:08-cv-00384-DLC *Millennium, L.P. v. Charactell, Inc.*; 1:08-cv-02945-WHP
Millennium, L.P. et al v. Pitney Bowes Inc.; 1:08-cv-10691-GBD *Millennium, L.P. v. Marex Group,*
Inc.; 1:09-cv-06104-MGC *Millennium, L.P. v. SpringCm*; 1:09-cv-06857-RMB *Millennium, L.P. v.*
A2iA Corp.; and 7:05-cv-08049-CM *Millennium, L.P. v. Image Access, Inc.*

thirteen were filed by Millennium in the United States District Court in New Jersey.⁴ According to the same courts' records, Eon-Net filed twenty-two cases in each court.⁵ Eon-Net has filed four additional cases in the Eastern District of New York, where Millennium has also filed one.⁶ All cases but the first

⁴2:03-cv-05141-JCL-MF *Millennium, L.P., v. Fairfax Imaging, Inc.*; 2:04-cv-01896-JLL-RJH *Millennium, L.P., v. Science Applications International Corporation*; 05-cv-01063-HAA-GDH *Millennium, L.P., v. Abbyy USA*; 2:05-cv-01576-WJM-RJH *Millennium, L.P., v. Autodata Systems*; 2:05-cv-01706-HAA-GDH *Millennium, L.P., v. 170 Systems, Inc.*; 2:05-cv-02718-KSH-PS *Millennium, L.P., v. Optio Software, Inc.*; 2:05-cv-02926-WJM-RJH *Millennium, L.P., v. Creative ICR, Inc.*; 2:05-cv-04654-WJM-RJH *Millennium, L.P., v. SSI Group, Inc.*; 2:05-cv-05574-WHW-SDW *Millennium, L.P., v. Eastman Kodak Company*; 2:06-cv-00322-JLL-CCC *Millennium, L.P., v. Doculex, Inc.*; 2:09-cv-03159-FSH-PS *Millennium, L.P., v. eCopy, Inc.*; 3:07-cv-04424-JAP-JJH *Millennium, L.P., v. Imaging Business Machines, LLC*; 3:08-cv-06079-FLW-LHG *Millennium, L.P., v. Pegasus Imaging Corporation*.

⁵In the Southern District of New York: 1:04-cv-03665-RWS *Eon-Net, L.P. v. Homecenter.com*; 1:04-cv-03667-TPG *Eon-Net, L.P. v. Black Hound New York*; 1:05-cv-01954-LMM *Eon-Net, L.P. v. Redenvelope, Inc.*; 1:05-cv-02049-LAK *Eon-Net, L.P. v. Ing Bank*; 1:05-cv-08340-JGK *Eon-Net, L.P. v. Sawhorse Enterprises, Inc.*; 1:05-cv-08471-JGK *Eon-Net, L.P. v. Somethingsexyplant.com*; 1:06-cv-00536-TPG *Eon-Net, L.P. v. A18 Corporation*; 1:06-cv-00621-LAK *Eon-Net, L.P. v. Gristedes Foods, Inc.*; 1:06-cv-00929-RMB *Eon-Net, L.P. v. J & R Electronics Inc.*; 1:06-cv-01483-DLC *Eon-Net, L.P. v. The Wine Messenger LLC*; 1:06-cv-05891-SHS *Eon-Net, L.P. v. Sony Corporation of America*; 1:06-cv-05975-LBS *Eon-Net, L.P. v. Foot Locker, Inc.*; 1:06-cv-06045-RCC *Eon-Net, L.P. v. D'Agostino Supermarkets, Inc.*; 1:06-cv-06133-KMK *Eon-Net, L.P. v. Hammacher Schlemmer & Company, Inc.*; 1:06-cv-06271-SHS *Eon-Net, L.P. v. Barnes & Noble, Inc.*; 1:07-cv-02822-NRB *Eon-Net, L.P. v. Walgreen Company*; 1:07-cv-10488-PKC *Eon-Net, L.P. v. J.Crew Inc.*; 1:08-cv-03581-RJS *Eon-Net, L.P. v. Diascience Corp.*; 1:08-cv-06954-JGK *Eon-Net, L.P. v. Abazias, Inc.*; 1:09-cv-00043-NRB *Eon-Net, L.P. v. Walgreen Company*; 1:09-cv-00150-TPG *Eon-Net, L.P. v. B&H Foto & Electronics Corp.*; and 7:05-cv-01977-WCC *Eon-Net, L.P. v. Random House, Inc.*

In the District of New Jersey: 1:06-cv-00584-FLW-AMD *Eon-Net, L.P. v. Edmund Optics, Inc.*; 1:07-cv-05578-NLH-AMD *Eon-Net, L.P. v. Burlington Coat Factory Warehouse Corporation*; 2:05-cv-00791-DMC-MF *Eon-Net, L.P. v. Flagstar Bancorp*; 2:05-cv-00845-JCL-MF *Eon-Net, L.P. v. Drugstore.Com, Inc.*; 2:05-cv-00936-DMC-MF *Eon-Net, L.P. v. CoolAnimalStuff*; 2:06-cv-00315-FSH-PS *Eon-Net, L.P. v. Linen 'n Things, Inc.*; 2:06-cv-00826-JAG-MCA *Eon-Net, L.P. v. Sommers Plastic Products Co., Inc.*; 2:06-cv-03670-PGS-RJH *Eon-Net, L.P. v. Liz Claiborne, Inc.*; 2:06-cv-03709-KSH-PS *Eon-Net, L.P. v. Sys-Con Media*; 2:06-cv-03785-FSH-PS *Eon-Net, L.P. v. John Wiley & Sons, Inc.*; 2:06-cv-03899-JAG-MCA *Eon-Net, L.P. v. Staples, Inc.*; 2:07-cv-01633-SDW-MCA *Eon-Net, L.P. v. Jos. A. Bank Clothiers*; 2:08-cv-1427-PGS-ES *Millennium, L.P. and Eon-Net, L.P., v. EMC Corporation*; 2:08-cv-01797-JLL-CCC *Eon-Net, L.P. v. American Airlines, Inc.*; 2:08-cv-03896-WJM-MF *Eon-Net, L.P. v. US Airways, Inc.*; 2:09-cv-00016-WJM-MF *Eon-Net, L.P. v. Sony Corporation of America*; 2:09-cv-00063-JLL-CCC *Eon-Net, L.P. v. Barnes & Noble, Inc.*; 2:09-cv-00843-DMC-MF *Eon-Net, L.P. v. Avis Budget Group, Inc.*; 3:04-cv-03738-MLC-JJH *Eon-Net, L.P. v. BabyAge, Inc.*; 3:04-cv-03778-MLC-JJH *Eon-Net, L.P. v. Beach Camera, Inc.*; 3:06-cv-00376-JAP-JJH *Eon-Net, L.P. v. Brother International Corporation (U.S.A.)*; and 3:06-cv-03655-FLW-TJB *Eon-Net, L.P. v. Anadigics, Inc.*

⁶1:06-cv-02463-CPS-SMG *Eon-Net, L.P. v. Jetblue Airways Corporation*; 1:07-cv-01474-ENV-MDG *Eon-Net, L.P. v. Delta Air Lines, Inc.*; 1:08-cv--01555-FB-RLM *Eon-Net, L.P. v. Northwest Airlines, Inc.*; 1:09-cv-00871-ENV-VVP *Eon-Net, L.P. v. United Airlines, Inc.*; 2:02-cv-03049-JS *Millennium, L.P. et al v. Kofax Image Products*.

four, filed from 1996 to 2001, appear to have been filed by plaintiff's present counsel, Jean-Marc Zimmerman. All these cases—apart from six cases recently filed by Glory Licensing LLC in the three district courts—are now closed. It appears that to this point, this case is the only one that has been litigated as far as a “*Markman*”⁷ hearing; all others settled or were dismissed prior to that stage of the proceedings. In none of the cases has the validity of the patents been tested.

Plaintiff originally filed this action in the United States District Court for the District of New Jersey, alleging infringement of Patent No. 6,683,697 (“ ‘697 patent”). The case was transferred to this district upon the motion of defendant Flagstar. Dkt. # 1. Subsequent events are summarized by the Federal Circuit Court of Appeals in its Order remanding the matter to this Court:

After the case was transferred, Flagstar filed a motion for summary judgment contending that it was not liable for infringing the '697 patent because it used technology from Kofax Image Products, Inc. (“Kofax”) to collect, manage, and process all electronic and hard-copy documents collected through its website, and because its use of Kofax technology was covered by a licensing agreement between Kofax and the entity that subsequently assigned the '697 patent to Eon-Net. Flagstar's motion for summary judgment explicitly assumed, for purposes of the motion, that the '697 patent as corrected is valid, the “unidentified” accused device “includes any products or technologies used by Flagstar to manage and process documents received through its website,” and that those products or technologies are “within the scope of the claims of the '697 patent.” In its memorandum opposing Flagstar's motion, Eon-Net contended that Flagstar did not use Kofax technology to perform online banking services on its website, but instead used technology from Digital Insight Corporation (“Digital Insight”), so that the “accused online banking services” Flagstar offered on its website were not covered by the Kofax license and could not be covered by Flagstar's license defense.

The district court granted summary judgment of noninfringement in favor of Flagstar, finding that Eon-Net failed to present facts demonstrating infringement, identify products that might infringe the '697 patent, “proffer a reasonable construction” for the '697 patent, or apply its construction to the allegedly infringing products. Order Granting Summary Judgment, slip op. at 1-2. In its order, the district court defined the '697 patent as describing and claiming “an interface between ‘hard copy’ documents and computer applications.” *Id.* at 2. The district court noted that the '697 patent specification “describes the extraction of information from hard copy documents by scanning the documents, parsing the extracted information, and formatting the information for use.” *Id.* The district court also noted that Eon-Net's complaint is “virtually identical” to thirteen other complaints “filed against parties with greatly disparate business operations.” *Id.* at 3. The district court concluded that the parties agreed that Kofax software is covered by the license agreement between Kofax and Flagstar, and that although Eon-Net had alleged in a conclusory fashion that Flagstar's use of Digital Insight software on its online banking web pages infringed the '697 patent, there was no evidence that the '697 patent covered online banking services. *Id.* at 6-7.

⁷ *Markman v. Westview Instruments*, 517 U.S. 370 (1996)

1 Eon-Net filed a motion to reconsider raising the same arguments it has raised in the present
2 appeal, that summary judgment was inappropriate because the district court improperly
3 ignored Flagstar's stipulation that the accused products or technologies fell within the scope
4 of the claims of the '697 patent, and improperly limited the claims of the '697 patent to an
5 interface between hard copy documents and computer applications. The district court denied
6 this motion. *Eon-Net, LP v. Flagstar Bancorp*, No. C 05-2129, 2006 WL 2794307, slip op.
7 at 4 (W.D.Wash. Sept. 27, 2006). It rejected Eon-Net's interpretation of Flagstar's motion
8 for summary judgment as seeking summary judgment only on the affirmative license
9 defense, finding instead that Flagstar had sought summary judgment "because the undisputed
10 material facts preclude finding Flagstar liable for patent infringement." *Id.* at 1. The district
11 court explained that because Flagstar met its initial burden to show there was no evidence
12 of infringement, Eon-Net had to demonstrate that there was evidence of infringement, but
13 its identification of "online banking services" and "Digital Insight" software as infringing
14 products was not supported by facts. *Id.* The ruling on the motion to reconsider did not
15 reference Eon-Net's arguments about Flagstar's stipulation or the district court's purported
16 sua sponte limitation of the '697 patent.

17 At the same time that it filed its motion for summary judgment, Flagstar filed a motion
18 for sanctions pursuant to Federal Rule of Civil Procedure 11 on the basis that Eon-Net
19 had failed to investigate or identify allegedly infringing products prior to filing suit and
20 had asserted baseless infringement claims. The district court granted Flagstar's motion,
21 finding that it "must conclude" that Eon-Net's claims were baseless because Eon-Net
22 had not performed a reasonable pre-filing inquiry as required by Rule 11, identified
23 or investigated an accused product, or reasonably evaluated the '697 patent's claims.
24 Order on Cross-Motions for Sanctions, 239 F.R.D. at 614-19. The district court
25 explained that it was "very concerned with Eon-Net's continuing conduct" in filing
26 numerous identical complaints without sufficient investigation, and explicitly concluded
27 that "indicia of extortion are present in this case." *Id.* at 619. The district court awarded
28 Flagstar attorneys fees and costs, which the court later found to be \$141,984.70. Order
Setting Sanctions, slip op. at 1.

Eon-Net, L.P., v. Flagstar Bancorp, 249 Fed.Appx 189, 191-194, 2007 WL 2818634 (C.A.Fed), found
at Dkt. # 105.

At oral argument on the motion for sanctions, the Court tried to determine how Eon-Net
analyzed the accused product on Flagstar's website. The following colloquy ensued:

THE COURT: What's the product that you did your analysis on?

MR. ZIMMERMAN: Your Honor, the product is as follows. The product in this case,
infringing products are the web pages we identified on the Flagstar.com website that
use HTML technology to extract information using content instructions and transmit
that extracted information to an application program residing on the Flagstar.com
server.

THE COURT: So if I go to the website—

MR. ZIMMERMAN: Yes.

THE COURT: All right? Where am I going to find the product identified?

1 MR. ZIMMERMAN: If you go to a web page the server—you go into your browser and
2 you'll see a web page. If you go to view with source, the source page, you can see the
3 actual code behind the web page. There's a one-to-one correlation between the lines of
4 code that you see and what appears on the web page. So there are HTML document[s].,
5 and in the HTML document there are HTML forms, you enter information, for example,
6 your name, the account information, wire instructions, whatever the case may be.

7 That information is extracted according to content instruction. The content instructions
8 identify what those particular pieces of information are, your name, account number,
9 that type of stuff.

10 THE COURT: There's got to be a program that runs that process.

11 MR. ZIMMERMAN: Well, there's software that is used to create these pages. But all
12 of this software, none of it is—I understand, Your Honor, you said you didn't want to
13 address the summary judgment issue and I'm not going to, but it's important for purposes
14 of the Rule 11 motion because the Rule 11 motion was predicated on the fact that they
15 had a license because of the Kofax software but the Kofax software is admitted by Paul
16 Gail, the attorney for Kofax, none of that is used in connection with the online banking
17 services offered at the Flagstar.com website.

18 THE COURT: I want to know what you did besides looking at the website. What product
19 did you identify, and did you purchase it and examine it, laying it side by side with your
20 patent?

21 MR. ZIMMERMAN: You Honor, the product—there's no product per se. It's a system that
22 has—comprised of steps. If those steps are performed, there's an infringement. It's not like
23 there's a toaster per se or some other infringing product. It's a system method. It's a system
24 patent. The claims are system claims comprised of steps, and if those steps are performed
25 there's an infringement.

26 THE COURT: That leads me to a question of if you are correct—

27 MR. ZIMMERMAN: Yes.

28 THE COURT: —and you have patented a system—

MR. ZIMMERMAN: Yes.

THE COURT: —you own the Web.

MR. ZIMMERMAN: I can't speak to the Web as a whole, but, Your Honor, for the websites
we have looked at and that we've brought suits against yes, they're infringing. I would
mention the priority date of the first patent, to which this patent refers—that is 1991—predates
HTML form technology, which didn't appear until later in the nineties.

Reporter's Transcript of Proceedings, September 8, 2006, Dkt. # 77, pp. 7-9.

In the Order awarding sanctions, the Court identified several bases for the sanctions. First, the
Court noted that the original complaint in this action was “virtually identical” to at least thirteen other
complaints filed to that date against parties engaging in greatly diverse business operations. Order on
Rule 11 Sanctions, Dkt. # 79, p. 3. The bare-bones complaint in each case alleged that the defendant

1 infringed by

2 collecting information over the Internet pursuant to a claim of the '697 patent, and
3 deploying for Defendant's own use an application distributed over the Internet in
4 which information is collected and extracted from a customer of Defendant and
5 processed on Defendant's server . . .

6 *Id.*, p. 3. The complaints made no mention of HTML form technology and wholly failed to provide
7 adequate notice of the claims allegedly infringed. In each case, Eon-Net followed service of the
8 complaint with a quick offer of settlement on a sliding scale ranging from \$25,000 to \$75,000,
9 depending on annual sales of the defendant. *Id.*, p. 4.

10 In the weeks during which Flagstar's motion for sanctions was pending, Eon-Net filed eleven
11 more lawsuits, each with a complaint accusing the defendant of infringing by

12 operating a website at [web address] pursuant to a claim of the '697 patent . . . in
13 which information entered by a customer of Defendant into an electronic form
14 document displayed on the customer's computer is extracted and transmitted to
15 an application program operating on Defendant's server . . .

16 *Id.*, p. 3. The Court found "indicia of extortion" from the fact that "[d]ozens of parties (regardless of
17 their actual business) have received the same complaint, claim chart, and settlement letter." *Id.*, p. 17.
18 The Court noted that, given the high cost of patent litigation, "even the finest patent attorney would need
19 to think carefully before advising a client to spend hundreds of thousands of dollars in litigation when a
20 \$25,000, \$50,000, or \$75,000 settlement was on the table." *Id.*

21 In addition to the "indicia of extortion," the Court found grounds for Rule 11 sanctions in
22 counsel's failure to perform a reasonable pre-filing inquiry, failure to identify an accused product, and
23 failure to reasonably evaluate the reach of the '697 patent's claims. *Id.*, pp. 6-12. The Court found no
24 basis for Eon-Net's argument that the scope of the '697 patent covers far more than the invention
25 described in the specification: an invention which "provides an integrated and comprehensive system for
26 handling information from a hard copy document, thus permitting a paperless office." *Id.*, p. 12.

27 On appeal, the Federal Circuit Court of Appeals vacated and remanded both the summary
28 judgment ruling and the associated grant of sanctions. The appellate court found that the district court
improperly granted summary judgment *sua sponte*, "without affording Eon-Net notice and the
opportunity to present argument on infringement and the appropriate construction of the '687 patent."
Eon-Net v. Flagstar Corp. 289 Fed. Appx. at 198. Upon remand, the district judge who originally

1 handled the case recused, and the case was assigned to the undersigned district judge. At a status
2 conference held December 12, 2007, plaintiff moved for leave to file an amended complaint, and
3 defendant did not object. The Second Amended Complaint includes claims of infringement of two
4 continuation patents which issued during the time that this matter was pending in this Court and on
5 appeal.⁸ Second Amended Complaint, Dkt. # 108.

6 The Court set dates for a *Markman* hearing and associated briefing. Dkt. # 114. The Court also
7 ruled that discovery would be limited to claim construction issues until after the *Markman* hearing. Dkt.
8 # 124. During this pre-*Markman* discovery period, Flagstar filed a motion for sanctions, asserting that
9 sanctions were warranted for Eon-Net's destruction of documents, as well as for Eon-Net's failure to
10 participate in the claims construction process in good faith. Dkt. # 139. This second contention arose
11 from counsel's written statement, on the day that the parties were to exchange proposed claim
12 construction terms, that

13 it is Eon-Net's position that there are no claim terms in the patents-in-suit that need to be
14 construed by the Court since the claim terms have their ordinary and customary meaning that
15 such terms would have to a person of ordinary skill in the art in question at the time of the
16 invention.

17 Exhibit 4 to Motion for Sanctions, Dkt. # 139-3, p. 9. Flagstar objected to this refusal to comply with
18 the claim construction procedure. *Id.*, p. 12-13. Eon-Net then agreed to provide, within the week, Eon-
19 Net's proposed construction of terms identified by Flagstar as requiring construction. *Id.*, p. 15.

20 The basis for Flagstar's contention that Eon-Net destroyed documents relevant to the litigation
21 was the discovery, during deposition of Dr. Medina, that Eon-Net had no documents responsive to the
22 requests for production. When asked whether he recalled searching for any of the documents called for
23 in Flagstar's First Set of Requests for Production, Dr. Medina responded, "I don't save anything so I
24 don't have to look." Deposition of Mitchell Medina, Dkt # 139-2, p. 215. When asked whether he had
25 requested that anyone else search for documents, Dr. Medina answered, "There is nobody else to ask
26 and no place else to look." *Id.*

27 ⁸Patent No. 7,075,673 (" '673 patent'"), a continuation of the '697 patent, issued on July 11,
28 2006. Patent No. 7,184,162 (" '162 patent'"), a continuation of the '673 patent, issued on February 27,
2007.

1 Early on in the deposition, Dr. Medina stated,

2 And further, to be candid, as Millennium and Eon-Net have evolved into patent enforcement
3 companies which are involved in the business of litigation, **we have adopted a document**
4 **retention policy which is that we don't retain any documents.** So the only documents that
5 exist are in the custody of my attorney.

6 Early on in the process, we selected some documents, put them in a couple of boxes. They
7 were originally in the custody of the predecessor counsel to Jean-Marc Zimmerman and
8 then were transferred to him. There may be in that box of documents a copy of the 1984
9 specification draft. I'm not sure. Whatever is there has been produced to you. There is
10 no more.

11 *Id.*, p. 63 (emphasis added). Dr. Medina explained that during the first patent infringement suit initiated
12 by Millennium, in 1996, the "couple of boxes" relevant to the first patent obtained by Dr. Medina and
13 his partners, the '855 patent, together with the first continuation patent, the '508 patent⁹, were turned
14 over to Millennium's prior litigation counsel.¹⁰ *Id.*, p. 62-63. He stated, "At the time of that litigation,
15 the selection of documents was made. We had more records at that time, but that selection became our
16 selection of what we thought was relevant to the document production requests that were given to us at
17 that time, and nothing else survives." *Id.*, p. 63.

18 Counsel for Eon-Net, Mr. Zimmerman, and Dr. Medina then explained to Ms Baily, counsel for
19 Flagstar, more about the fate of the documents.

20 MR. ZIMMERMAN: I want to have a clarification. Jeffrey Schwab was prior litigation
21 counsel, not prosecution counsel. Jeffrey Schwab's firm did not prosecute.

22 THE WITNESS: That's correct.

23 MR. ZIMMERMAN: The files, what was transferred to me were documents in connection
24 with the litigation that I assumed and **at the end of the litigation, we discarded the**
25 **documents.** The prosecution files were done by Foley & Lardner, to the best of my
26 recollection, they have whatever prosecution files they have.

27 THE WITNESS: I know that Foley & Lardner's document retention process, policy, once
28 a patent issues, they discard everything except, you know, what's in the file history.

⁹Patent No. 5,369,508, which issued November 29, 1994.

¹⁰ Prior counsel Jeffrey Schwab, who filed the 1996 lawsuit on behalf of Millennium
(*Millennium, L.P. v. Compaq Computer Corp.*, Case No. 1:96-cv-8251-MBM), and three subsequent
suits, withdrew from representation after the fourth lawsuit was transferred to the Southern District of
California. *See, Millennium, L.P. v. Readsoft AB, et al.*, Case. No. 1:01-cv-03734-JGK (S.D.N.Y.). Mr.
Zimmerman appeared in the California action, and, as noted above, has represented Millennium and
Eon-Net in all cases filed after 2001.

1 MS. BAILY: Well, since you brought it up, did you contact the Foley & Lardner law
2 firm—

3 MR. ZIMMERMAN: I did. I spoke with—I did it prior. But in response to your last thing
4 to double-check, I also spoke with Blumenthal. David Blumenthal was the original attorney
5 prosecuting the patents, but he is retired and it has subsequently been taken over by Glen
6 Law. Glen Law confirmed for me that there is nothing responsive in the file histories or files
7 that have any claim construction issues.

8 THE WITNESS: To amplify it further, Schwab quit in the middle of the case, not a first one,
9 but a case that was [a] pending Millennium case.

10 MR. ZIMMERMAN: In San Diego.

11 THE WITNESS: Zimmerman & Levi assumed the representation of Millennium in that case.
12 Schwab transferred all the files he had over to Zimmerman & Levi.

13 MR. ZIMMERMAN: For that case.

14 THE WITNESS: And that was it.

15 *Id.*, pp. 64-65.

16 According to Dr. Medina's testimony, documents relevant to the first two patents, the '855
17 patent, and the '508 patent, were selected for retention and given to his attorney at the time, Jeffrey
18 Schwab, in relation to the case filed in 1996. After that, Dr. Medina, acting for both Millennium L.P.
19 and Eon-Net, discarded all documents, including all documents relating to the '697 patent at issue in this
20 action, under the new document retention policy. Mr. Zimmerman then discarded all the documents
21 relating to the '855 and '508 patents that he received from Mr. Schwab at the conclusion of the case in
22 San Diego.¹¹ That was in 2003. *Millennium L.P. v. Readsoft AB, et al.*, Cause No. 3:02-cv-00152-K-
23 JFS, United States District Court for the Southern District of California. According to Flagstar's first
24 motion for sanctions, this systematic destruction of documents relevant to the stream of litigation
25 constitutes sanctionable conduct. Motion for Sanctions, Dkt. # 139. Flagstar argued that dismissal of
26 the complaint was an appropriate sanction, but if the Court declined to dismiss, Eon-Net should be
27 foreclosed from offering evidence on issues related to the discarded documents, including all issues
28 related to claim construction. *Id.*, p. 11.

¹¹Mr. Zimmerman's admission that he discarded all documents relevant to the earlier patents—the only documents still in existence regarding the patents—at the conclusion of this one case is striking, in view of the fact that Millennium had at that time several other cases pending in the New York district court.

1 In responding to the motion for sanctions, Eon-Net argued that sanctions were not warranted as
2 no documents had been destroyed in anticipation of, or during, this litigation. Mr. Zimmerman filed a
3 declaration stating that the only documents he discarded from Millennium's and Eon-Net's files were
4 documents that are "publicly available, obsolete or no longer of value to Eon-Net or Millennium."
5 Declaration of Jean-Marc Zimmerman, Dkt. # 144-3. Dr. Medina filed a declaration stating that Eon-
6 Net has no employees, office, or customers, and therefore has no interoffice memos or correspondence
7 to produce. Declaration of Mitchell Medina, Dkt. # 144-2. Further, while documents relating to patent
8 prosecution history were discarded by Eon-Net's agents, those documents are publically available. *Id.*
9 He also pointed to his deposition testimony in which he explained that many of his records from prior
10 years were lost due to his divorce or separation, and his move to Kenya in 2000, after which he was
11 "locked out of Kenya" due to the political situation. *Id.*

12 The motion for sanctions was not fully briefed until days before the *Markman* hearing, which
13 was set for October 27, 2008. The Court heard oral argument on the motion for sanctions before
14 proceeding with the hearing, and reserved ruling on the motion. Dkt. # 146. Three days after the
15 *Markman* hearing, on October 30, 2008, the Federal Circuit Court of Appeals issued a decision
16 regarding "method" patents, holding invalid a patent which described a method for managing risk in
17 commodity trading by performing a series of steps. *In re Bilski*, 545 F. 3d 943 (2008). Concerned over
18 Mr. Zimmerman's statement in prior proceedings that "the claims are system claims comprised of
19 steps," the Court directed the parties to present supplemental briefing on any impact the *In re Bilski*
20 decision might have on claim construction issues.¹² Dkt. # 148.

21 The Court issued its ruling on claim construction on March 4, 2009. Dkt. # 162. The Court
22 construed the terms offered by the parties for construction, and also necessarily resolved what had
23 become the central issue of Eon-Net's infringement claims, namely whether the '697 patent and its
24 continuation patents are limited to a methodology for processing information originating from hard-copy
25 documents. Dkt. # 162, p. 13. Noting that "the claims cannot be of broader scope than the invention
26

27 ¹² The validity of the '697 and continuation patents was not before the Court at the *Markman*
28 stage. As this case settled after the Court issued its ruling on claim construction, the '697 and other
patents held by Eon-Net have never been subjected to a validity challenge under *Bilski*.

1 that is set forth in the specification,” the Court found that the “very character of the invention” requires
2 that it be limited to hard copy documents. *Id.*, quoting *On Demand Machine v. Ingram Industries, Inc.*,
3 442 F. 3d 1331, 1340 (Fed.Cir. 2006) (citing *Phillips v. AWH Corp.*, 415 F. 3d 1303, 1313 (Fed.Cir.
4 2005)) and *Alloc, Inc., v. International Trade Commission*, 342 F. 3d 1361, 1370 (Fed. Cir. 2003). The
5 Court did not address the document destruction issues in the claim construction Order, as the missing
6 documents did not appear to hinder Flagstar in presenting successful arguments in the *Markman*
7 proceedings. The motion for sanctions was left for a later date. Dkt. # 162, n. 2

8 Less than a month after the Court issued the Order on claim construction, the parties filed a
9 stipulation to entry of judgment of non-infringement, together with dismissal without prejudice of
10 Flagstar’s counterclaims and defenses regarding patent invalidity. Dkt. # 165. The Court signed the
11 stipulation on April 6, 2009, making it the Order of the Court. Dkt. # 166.

12 Flagstar now moves for attorney fees pursuant to 35 U.S.C. § 285, which provides in patent suits
13 that “[t]he court in exceptional circumstances may award reasonable attorney fees to the prevailing
14 party.” 35 U.S.C. § 285. Eon-Net has opposed the motion. The matter is now fully briefed and ready
15 for consideration.

16 ANALYSIS AND DISCUSSION

17 A determination whether to award attorney fees under 35 U.S.C. § 285 involves a two-step
18 process. First, the district court must determine whether the prevailing party has proved by clear and
19 convincing evidence that the case is “exceptional.” 35 U.S.C. § 285 (2000); *Ruiz v. A.B. Chance Co.*,
20 234 F.3d 654, 669 (Fed. Cir.2000); *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448, 1460 (Fed.
21 Cir.1998) (en banc). If the court finds that it is an exceptional case, it must then determine whether to
22 award an attorney fee---a decision that lies primarily within the district court's discretion. *See Forest*
23 *Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1329 (Fed. Cir.2003).

24 The Federal Circuit Court of Appeals has identified as “exceptional” those cases involving
25 “inequitable conduct before the [Patent Office]; litigation misconduct; vexatious, unjustified, and
26 otherwise bad faith litigation; a frivolous suit or willful infringement.” *Brasseler, U.S.A. I, L.P., v.*
27 *Stryker Sales Corporation* , 267 F.3d 1370, 1380 (Fed. Cir. 2001) (citation omitted); *Hoffmann-La*
28

1 *Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1365 (Fed. Cir.2000). However, “[i]n the context of fee
2 awards to prevailing accused infringers, . . . § 285 is limited to circumstances in which it is necessary to
3 prevent ‘a gross injustice’ to the accused infringer. . . .” *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d at
4 1329. A finding of exceptionality to prevent such injustice will be upheld “only when the patentee has
5 procured its patent in bad faith . . . or has litigated its claim of infringement in bad faith.” *Id.*

6 To support an award of attorneys fees for a patent holder's pursuit of a baseless claim of
7 infringement, the accused infringers must demonstrate “both (1) the litigation is brought in subjective bad
8 faith, and (2) the litigation is objectively baseless.” *Brooks Furniture Mfg., Inc. v. Dutailier*
9 *International*, 393 F.3d 1378, 1381 (Fed.Cir.2005). Although a lawsuit pursued in bad faith is a
10 sufficient basis for imposing attorney fees under § 285, such bad faith requires vexatious, unjustified, or
11 frivolous litigation. *See, e.g., Aptix Corp. v. Quickturn Design Systems, Inc.*, 269 F.3d 1369, 1375 (Fed.
12 Cir.2001) (affirming an award of attorney fees under § 285 for the “extreme litigation misconduct” of
13 falsifying evidence); *Eltech Systems Corp. v. PPG Industries, Inc.*, 903 F.2d 805, 810-11 (Fed. Cir.1990)
14 (affirming an award of attorney fees under § 285 for pursuing a baseless claim of infringement). “A
15 frivolous infringement suit is one which the patentee knew or, on reasonable investigation, should have
16 known, was baseless.” *See Haynes Int’l Inc. v. Jessop Steel Co.*, 8 F.3d 1573, 1579 (Fed.Cir.1993),
17 *rehearing granted on other grounds*, 15 F.3d 1076 (1994).

18 In moving for attorney fees under § 285, Flagstar asserts four bases for a finding that this case is
19 exceptional: the lawsuit was frivolous and unjustified; it was filed for the improper purpose of inducing
20 a nuisance settlement; Eon-Net improperly destroyed evidence; and Eon-Net engaged in offensive
21 litigation tactics. These shall be addressed in turn.

22 I. Pursuit of Baseless Claims of Infringement

23 Flagstar first contends that the lawsuit was frivolous and unjustified, as the claims of infringement
24 were based upon Eon-Net’s unreasonable interpretation of the scope of the ‘697 patent. As set forth
25 above, the district judge previously assigned to this case pointed out at the hearing on sanctions that if
26 Eon-Net’s position on the scope of the patent is correct, then Eon-Net “owns the Web,” and can sue for
27 infringement virtually any business engaged in internet commerce. Mr. Zimmerman, in his response to
28 that comment (also set forth above), did not deny the possibility, but instead responded that any website

1 using HTML form technology automatically infringes Eon-Net's patents.

2 Dr. Medina also advanced this view of the scope of the patents at his deposition, as follows:

3 Q. Do you see in the next sentence, "we believe that the website incorporates the invention
4 claimed in the patents."

5 You have to give an audible answer.

6 A. Yes.

7 Q. And do you agree with that conclusion?

8 A. Yes.

9 Q. How did you arrive at that conclusion?

10 A. We believe broadly that websites implementing e-commerce more than likely infringe
11 our patents. Therefore, if Café Press is conducting electronic commerce, then they are, in
all likelihood, infringers of our patents.

12 This is a belief that I hold. If my attorney says that we, meaning he and I, believe that the
13 website incorporates the invention in the patents, and the website, in fact, is implementing
electronic commerce of some kind, then what my attorney is stating, we believe is, in fact
14 something that I subscribe to.

15 Q. So you don't have to analyze any particular website as long as you have information
16 that the website is conducting electronic commerce in order to determine whether it
infringes your patent, is that right?

17 A. That's 99 and 44/100's percent true. There was one instance in which we sued somebody
18 and in the end, they represented to us that the information that was being extracted from
client computers according to content instructions and being formatted into I think an e-mail
19 format and transmitted to a server at the web—configured like that. There might be some
other noninfringing kind of e-commerce that's being carried on, although perhaps less so
20 in the light of what we call patent "8" where we are talking about enabling a transaction
between a buyer and a seller.

21 Deposition of Mitchell Medina, Dkt. # 173, Exhibit W, p 18-19. Dr. Medina thus joined his attorney, Mr.
22 Zimmerman, in contending that the patents owned by Eon-Net cover virtually all web-based
23 commerce—a contention that this Court finds insupportable.

24 Flagstar offers further evidence of the frivolousness of this lawsuit in the *Markman* proceedings.
25 After winning its appeal on the basis that the Court improperly granted summary judgment without
26 affording Eon-Net notice and an opportunity to argue its position on the scope of the patent claims, Eon-
27 Net then attempted to evade a careful analysis of the claim terms through the *Markman* process. During
28 the claim construction proceedings, Eon-Net first asserted that there were no claim terms in the patents-

1 in-suit that needed to be construed, and declined to offer any proposed terms for construction. *See*,
2 Declaration of Melissa Baily, Dkt. # 139-3, Exhibit 4. Eon-Net asserted that the claim terms “have their
3 ordinary and customary meaning that such terms would have to a person of ordinary skill in the art in
4 question at the time of the invention.” *Id.* Flagstar objected that Eon-Net’s position was untenable and
5 not in compliance with the Court’s scheduling order on pre-*Markman* procedures. *Id.*, Exhibit 5. The
6 parties then stipulated to an extension of time to file their joint claim construction chart. Dkt. ## 129,
7 130. The joint claim construction chart, when filed, offered the following claim terms for construction:
8 “document or file,” “document,” “file,” “extract,” “template,” “content instructions,” “customizable
9 transmission format instructions,” “electronic document template,” “image of the electronic document,”
10 “template document,” and “electronic document template file.” Dkt. # 134.

11 The parties’ opening claim construction briefs were filed on September 23, 2008. Flagstar
12 attached a supporting declaration with over 1700 pages of documents, including copies of the patents-in-
13 suit and related (continuation or preceding) patents, documents from cases filed in other districts by Eon-
14 Net or Millennium that contained evidence relevant to claim construction, documents from the
15 prosecution histories of the ‘697 patent and five related patents, and excerpts from the depositions of Dr.
16 Medina and his co-inventor, Catherine Elias. Dkt. # 137, Exhibits A through Y. Flagstar’s portion of the
17 claim construction chart cited at length to these supporting documents. Joint Claim Construction Chart,
18 Dkt. # 134-2.

19 Eon-Net, in contrast, attached to its opening claim construction brief a single exhibit, comprising
20 four pages copied from Que’s Computer User Dictionary, Second Edition, to support its proposed
21 construction of the claim terms “document” and “file.” Dkt. # 136, Exhibit A. Notably, the definitions
22 on the copied pages begin with “document comparison utility,” omitting the previous page which bears
23 the definition of “document.” The copied pages extend through the definition of “file name.” *Id.*
24 Without seeing the definition of “document,” the Court cannot determine whether the omission of the
25 actual definition for “document” was simply careless or intentional, as it would find if the dictionary
26 definition were contrary to Eon-Net’s proposed construction. However, the omission appears intentional,
27 as Eon-Net argued that the dictionary definition for “documentation” supported its construction of the
28 claim term “document.” Joint Claim Construction Chart, Dkt. # 134, p. 4. The Court rejected this

1 substituted definition as irrelevant. Order on Claim Construction, Dkt. # 162, p. 17. In viewing the
2 proffered claim construction documentation now, in the context of litigation bad faith analysis, the Court
3 finds these four pages from a dictionary, standing alone in support of the opening claim construction
4 brief, so paltry and so irrelevant to valid argument on claim construction as to be deemed frivolous.

5 The only other evidence offered by Eon-Net to support its proposed construction of the claim
6 terms was filed with the responsive brief. This evidence included Eon-Net's rebuttal expert report,
7 together with declarations by Catherine Elias and Mitchell Medina, each essentially disclaiming their
8 deposition excerpts which were offered by Flagstar in support of its claim construction. Dkt. # 141,
9 Exhibits 1, 2, 3. Dr. Medina stated, "Defendant has cited to my deposition testimony 42 times in the
10 Joint Claim Chart "in support" of their proposed claim construction, when I agree with none of them and
11 never testified in favor of any of them." *Id.*, Exhibit 2, ¶ 12. Catherine Elias stated, "I do not agree with,
12 and never testified in favor of any of Flagstar's proposed claim constructions, and any attempt by
13 Flagstar to argue otherwise is incorrect." *Id.* Exhibit 3, ¶ 4. These attempts to re-characterize, deny, or
14 comment upon their sworn deposition testimony are unavailing. The Court, in construing the claim terms
15 as a matter of law, read for itself the sworn deposition testimony and determined what weight to give it.
16 The overall effect of Eon-Net's sparse presentation of evidence was that there was no evidence beyond
17 Dr. Medina's self-serving opinion, stated above, to support Eon-Net's overly broad interpretation of the
18 claims.

19 II. Purpose of the Lawsuit

20 Next, Flagstar contends that the lawsuit was filed in bad faith and for an improper purpose—one
21 the Court earlier characterized as having indicia of extortion. As noted in the Court's earlier ruling on
22 sanctions, Eon-Net has a history of filing nearly identical patent infringement complaints against a
23 plethora of diverse defendants. The facts regarding this history of patent infringement actions, set forth
24 in detail above, support Flagstar's assertion. In each case, according to Flagstar, the complaint has been
25 followed with a demand for quick settlement at a price far lower than the cost of litigation, a demand to
26 which most defendants apparently have agreed.

27 Flagstar, however, investigated the claim of infringement and determined that it used software
28 from Kofax Image Products, Inc., in connection with its website operations, and that this software was

1 already licensed under the '697 patent. Flagstar therefore requested that Eon-Net withdraw the suit, and
2 notified Eon-Net as well that it intended to seek sanctions under Rule 11 if the request was refused.
3 Eon-Net declined to withdraw the lawsuit. Firm in the belief that Eon-Net's claim of infringement was
4 baseless, and that the lawsuit was filed for the improper purpose of collecting a nuisance settlement,
5 Flagstar alone chose to litigate rather than settle. In so doing, Flagstar has incurred significant expense
6 for the four years of litigation, far beyond what it would have paid to settle. Motion for Attorney Fees,
7 Dkt. # 172, p. 6, 9-10. Flagstar's refusal to agree to the settlement demand for what it legitimately
8 believed was a bad faith claim of infringement further supports a finding that this case is "exceptional."

9 III. Destruction of Evidence

10 Flagstar also contends that Eon-Net's destruction of documents relevant to discovery indicates
11 bad faith and renders this an exceptional case. The facts regarding this destruction of documents are set
12 forth above, along with counsel's remarkable admission that he discarded the few documents that had
13 been saved from the '855 and '508 patents at the conclusion of the *Readsoft AB* case in San Diego in
14 2003. Flagstar earlier moved for Rule 11 sanctions on the basis of this destruction of documents, but the
15 Court did not reach the issue as the parties settled before the Court ruled on the motion. The Court now
16 finds that it cannot hold the document destruction sanctionable conduct under Rule 11 in this case, as it
17 occurred prior to the filing of this case, at a time when Dr. Medina and counsel were filing lawsuits under
18 the name of Millennium, not Eon-Net. However, the Court does find, in the destruction of these
19 documents, and in Dr. Medina's description of the Eon-Net's "document retention policy," evidence of
20 bad faith in litigation, and a further basis for finding this an exceptional case.

21 This destruction of documents is particularly serious in that, according to Dr. Medina, no
22 evidence remains to document the inventors' process in filing the continuation patents assigned to Eon-
23 Net, the '697 and subsequent patents. Dr. Medina stated at his deposition that patents assigned to
24 Millennium were directed to "scanned hard copy documents," while patents assigned to Eon-Net "refer
25 to a system that extracts information from electronic files." Deposition of Mitchell Medina, Dkt. # 139,
26 Exhibit 1, p. 25. Yet no documents remain from the inventors' records that would aid a court in
27 distinguishing the claims in the '855 patent, and others assigned to Millennium, from the '697 patent and
28 others assigned to Eon-Net. This distinction regarding limitation to hard copy documents was a crucial

1 issue in this case, and Flagstar was deprived of discovery into that process by the earlier destruction of
2 documents. By destroying the inventors' notes and all other documents that could possibly have been
3 found relevant to the patent claims or prosecution history, apart from what remains in the public record,
4 Eon-Net and Mr. Zimmerman have clearly demonstrated their disinclination to participate in good faith
5 in litigating any of the lawsuits they have filed. Viewed in the larger context of the total number of cases
6 filed, this document destruction represents the type of discovery abuse that supports a finding that this is
7 an exceptional case under § 285.

8 IV. Eon-Net's Litigation Tactics

9 Finally, Flagstar asserts that Eon-Net's offensive litigation tactics support a finding that this is an
10 exceptional case. The destruction of evidence is one such tactic, and has been discussed above. Flagstar
11 also points to Eon-Net's attempt, early in the litigation, to prevent Flagstar from obtaining information
12 from Kofax regarding the license agreement between Eon-Net and Kofax, information that was essential
13 to Flagstar's defense of non-infringement. Further, Flagstar points to Eon-Net's failure to comply with
14 the claim construction procedure by asserting, as set forth above, that there are no claim terms in the
15 patents-in-suit that need to be construed by the Court. Finally, Flagstar asserts that Eon-Net has
16 displayed a "general contempt for the judicial system that it has repeatedly sought to exploit." Motion
17 for Attorney's Fees, Dkt. # 172, p. 11. The Court agrees.

18 At his deposition, Dr. Medina amply demonstrated his lack of regard for the judicial system in
19 the very litigation which he instigated. When asked what he had thought about in preparation for the
20 deposition, he responded "How much of an inconvenience and a bother this is." Deposition of Mitchell
21 Medina, Dkt. # 139, Exhibit 1, p. 5. He complained about the fact that Flagstar chose to litigate, stating

22 I'd like to speak to someone at Flagstar. About why really are we going around the rosy
23 with this lawsuit when Flagstar is a money-losing bank that spent a multiple of our license
fees on this litigation which, A, it is not going to win and, B, is quixotic at best.

24 I would dearly like to talk to a principal at Flagstar with decision-making authority, but I
25 don't know who such a person is. Perhaps at some point, you will see fit to supply me
with the name of such a person.

26 Deposition of Mitchell Medina, Dkt. # 173, Exhibit W, p. 22. Then, near the end of his deposition, he
27 fumed,

28 But you know, it has been a labor of love that has turned into a labor of profound indifference.

1 I tell you I am so sick of this stuff by now. I am so sick of this stuff, especially this haggling
2 over stupidities and trivialities which is the name of the game in litigation.

3
4 Deposition of Mitchell Medina, Dkt. # 139, Exhibit1, p. 34. Such “trivialities” apparently include, in
5 Dr. Medina’s view, claim construction, an essential part of the patent litigation process.

6 Perhaps the most egregious example of the cavalier attitude taken by Eon-Net and its principal
7 Dr. Medina toward the patent litigation process as a whole may be found in Eon-Net’s interrogatory
8 responses in a separate lawsuit against Burlington Coat Factory Warehouse, in the District of New
9 Jersey. *Eon-Net L.P. v. Burlington Coat Factory Warehouse Corp.*, Case No. 1:07-cv-05578-NLH-
10 AMD. The interrogatory responses are dated June 4, 2008, shortly before the June 23, 2008 deposition
11 of Dr. Medina in this case. Interrogatory No. 2 asked that Eon-Net

12 [s]pecifically describe the level of ordinary skill in the art that Eon-Net contends is
13 applicable for purposes of claims construction for each of the Patents-In-Suit, including
14 an identification of all evidence that Eon-Net contends supports such level of ordinary
15 skill in the art.

16 Declaration of Melissa Baily, Dkt. # 172, Exhibit DD, p. 3. Eon-Net responded that “the skill in the art
17 required is that sufficient to converse meaningfully with Mitchell Medina.” *Id.*

18 Interrogatory No. 3 asked that Eon-Net

19 [i]dentify each witness, including expert and non-experts, upon whom Eon-Net intends to
20 rely by submitting supporting statements or testimony in connection with each proposed
21 claim construction or level of skill in the art, including an identification of the specific
22 areas of anticipated statements or testimony.

23 *Id.* Eon-Net responded that it would rely solely upon Mitchell Medina, “who will be made available at a
24 deposition to testify regarding claim construction and the level of skill in the art.” *Id.*, p. 4. Flagstar
25 contends that these answers were meaningless and improper, and indicative of Eon-Net’s attitude toward
26 any defendant who chose to litigate rather than quickly settle.

27 In opposing the motion for attorney fees, Mr. Zimmerman asserts that arguments based on the
28 *Burlington Coat Factory* interrogatories are improper because the responses were provided in a different
case, “something that it appears defendant deliberately failed to make clear in its pleading.” Eon-Net’s
Response, Dkt. # 179, p. 13. That is not the case; counsel’s declaration clearly identifies the
interrogatory as coming from a case in the New Jersey District Court, and the exhibit itself is clearly

captioned as such. Declaration of Melissa Baily, Dkt. # 173, ¶ 31; Exhibit DD, p. 1.

Mr. Zimmerman then attempts to repudiate the interrogatory responses, dismissing them as an un-edited draft that was mistakenly prepared by his legal assistant:

The response sent to BCF was a non-final draft that included objections to BCF's interrogatories and un-edited responses received from plaintiff's principal Mr. Mitchell Medina, which draft was typed by plaintiff's counsel's assistant Naomi McElynn. Thereafter, plaintiff's counsel revised such responses, including revising Mr. Medina's responses. On the day that the responses were sent to BCF, it appears that Ms. McElynn inadvertently prepared the non-final version with Mr. Medina's un-edited comments as the final formal version for posting to BCF which plaintiff's counsel sent out.

Eon-Net's Response, Dkt. # 179, p. 13 (internal citations to the record omitted). Attached to this response is a declaration by the legal assistant, stating that she "inadvertently" prepared the "non-final" version for Mr. Zimmerman to post to BCF. Declaration of Naomi McElynn, Dkt. # 179-3.

In light of the fact that Mr. Zimmerman's signature appears on the offensive interrogatory responses, this attempt to place blame on his legal assistant is not well-taken. Had this document been a pleading or motion filed with the Court, rather than in interrogatory response sent to the opposing party, counsel could have been found subject to Rule 11 sanctions for his conduct.

The Court finds the balance of plaintiff's opposition to the motion for attorney fees unpersuasive. Plaintiff has cited at length to various portions of the Federal Circuit Court of Appeals' remand order, asserting that the appellate court's language demonstrates that it did not find the infringement claims baseless nor the lawsuit to be filed for an improper purpose. However, those questions were not before the appellate court, and the language cannot be read as plaintiff contends it should. The Federal Circuit Court's ruling was that this Court's summary judgment and sanctions decisions were premature, made without affording plaintiff an opportunity to present argument on infringement and the proper construction of the '697 patent. In so ruling, the appellate court viewed Eon-Net's arguments and assertions from the point most favorable to it, considering what Eon-Net might be able to prove if given the opportunity. However, the appellate court concluded its analysis by observing,

It may be true that ultimately Eon-Net's suit was for an improper purpose and that Eon-Net's pattern of filing nearly identical complaints against a wide variety of companies and then offering to settle those complaints for a relatively small amount of money is one indicia of that improper purpose. Without full analysis of the merits of Eon-Net's claim construction argument, however, the mere fact that Eon-Net filed identical infringement suits against a

1 variety of companies does not by itself establish an improper purpose. . . .
2 Judgment and Opinion of the Federal Circuit Court of Appeals, Dkt. # 105, p. 15.

3 Having now analyzed Eon-Net's claim construction arguments and issued a ruling, the Court
4 now finds, for the reasons set forth above, that this case meets the requirements for an "exceptional"
5 case under § 285. The Court also finds that Eon-Net's unnoted motion for sanctions pursuant to 28
6 U.S.C. § 1927 is without merit, as it was Eon-Net, not defendant, who "unreasonably and vexatiously"
7 multiplied these proceedings by filing a baseless lawsuit in the first instance, and by presenting multiple
8 frivolous arguments to the Court, such as the one set forth above regarding the interrogatory responses.
9 Eon-Net's motion for sanctions is accordingly DENIED.

11 CONCLUSION

12 In choosing to litigate this case rather than submit to the settlement demand, Flagstar not only
13 maintained a well-founded belief that its website did not infringe Eon-Net's patents, but also challenged
14 the validity of those patents. While an assertion that the patent-in-suit is invalid is commonly raised in
15 infringement actions, in this instance there appears to be a reasonable basis for the challenge. The Court
16 never reached the question of the patents' validity, as the parties stipulated to dismissal after the Court
17 issued its Order on claim construction. However, counsel's statements, set forth above, that "It's a
18 system method. It's a system patent" and "[t]he claims are system claims comprised of steps," raises
19 obvious and serious questions about the validity of the patents. By offering cheap settlements to each of
20 the many alleged infringers they have sued, Millennium and Eon-Net have avoided any challenge to
21 these patents' actual validity.

22 The Court finds that this case meets the requirements of an "exceptional" case. Flagstar, the
23 accused infringer, has prevailed in demonstrating through clear and convincing evidence that Eon-Net's
24 claims of infringement were baseless, and that the suit was filed for the improper purpose of inducing a
25 cheap settlement to avoid litigation expense. Flagstar has also demonstrated, with clear and convincing
26 evidence, that Eon-Net acted in bad faith in filing and in litigating this case. The Court further finds that
27 the lawsuit was objectively baseless, based as it was on Eon-Net's overly broad view of the scope of its
28 patents.

1 It would be a gross injustice to Flagstar to require it to bear the expense of defending against
2 the baseless lawsuit, one that was filed in bad faith for the sole purpose of inducing defendant to settle
3 without questioning the patent itself or its validity. An award of attorney's fees pursuant to § 285 is
4 therefore appropriate. *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d at 1329. Flagstar's motion is
5 accordingly GRANTED.

6 Flagstar shall file, on or before February 1, 2010, a statement of fees and expenses incurred since
7 this case was remanded to this Court, together with a supporting memorandum. Eon-Net shall have two
8 weeks following the filing of the fee statement to file a response. Both parties shall present argument in
9 their accompanying memoranda as to whether the Rule 11 sanctions previously imposed by this Court
10 should be reinstated.

11 DATED this 4 day of January, 2010.

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14 RICARDO S. MARTINEZ
15 UNITED STATES DISTRICT JUDGE
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